



## **2005 SDRS LEGISLATION**

The 2005 Legislature approved five pieces of legislation proposed by the SDRS Board of Trustees.

The most significant legislation reduces the cost of purchasing credited service for qualifying military personnel. The other four bills address technicalities and clarify existing laws related to the Special Pay Plan, eligibility for SDRS benefits, and retirees who return to SDRS-covered employment.

# Recodification

### THE ISSUE

In codifying the Special Pay Plan in 2004, the Code Commission included Special Pay Plan laws in the chapter of the South Dakota Codified Laws relating to SDRS.

### Special Pay Plan Recodification

#### Current Provisions

2004 Special Pay Plan codified into SDCL ch. 3-12, the main SDRS chapter, rather than into its own chapter

#### Changes Effective July 1, 2005

Special Pay Plan is given its own chapter in the South Dakota Code

### THE APPLICATION

Legislation moves the Special Pay Plan to its own chapter in the South Dakota Code.

### THE RESULT

The provisions applicable to SDRS are separated from the provisions applicable to the Special Pay Plan in the South Dakota Code. There is no fiscal impact.

# Compliance with Federal Law

## THE ISSUE

The IRS has requested minor changes in the Special Pay Plan law in order to receive IRS approval as a qualified plan under federal law and regulations.

## Compliance with Federal Law

### Current Provisions

Special Pay Plan enacted in 2004 was intended to become a “qualified” plan under IRS law — IRS has granted tentative qualified status pending some technical amendments

### Changes Effective July 1, 2005

Special Pay Plan meets IRS requirements:

- statement that participant’s account is fully vested immediately
- statement that participant’s account is not subject to forfeiture
- investment loss in participant’s account is not considered a forfeiture
- maximum contribution to a participant’s account is governed by federal statutes *and federal regulations*
- maximum contributions include all contributions to defined contribution plans, including contributions to the Special Pay Plan

## THE APPLICATION

Legislation amends the Special Pay Plan so that it meets IRS qualification requirements. No material changes are required.

## THE RESULT

The Special Pay Plan meets IRS qualification requirements. There is no fiscal impact.

# Purchase Rates for Credited Service

### THE ISSUE

Call-up to active federal military duty may have caused some members to miss their final opportunity to purchase credited service before rates increased July 1, 2004. The board's recommended legislation allows these members to purchase credited service at the pre-July 1, 2004, rates.

## Purchase Rates for Credited Service

### Current Provisions

Rates effective July 1, 2004:

- actuarially-determined sliding scale based on age
- minimum of 100% of combined contributions
- after July 1, 2004, current combined contribution rates apply for all purchases, regardless of date of service

### Changes Effective July 1, 2005

Rates effective before July 1, 2004, offered to qualifying members mobilized to active federal military duty:

- 75% of the combined member and employer contribution rates
- combined contribution rates determined by date of service
- limited to purchases of service within two years of release from active military duty

### THE APPLICATION

An SDRS member in the National Guard or Reserves called to active federal duty between February 1, 2002, and September 30, 2004, can purchase credited service at the rates in effect prior to July 1, 2004, provided the member:

- returns to active SDRS status
- purchases the service within two years of release from active military duty

### THE RESULT

Qualifying SDRS members called to active federal military duty will have the opportunity to purchase credited service at reduced rates. The fiscal impact on SDRS is expected to be less than \$100,000.

# Retirees Back to Work

### THE ISSUE

In the 2004 legislation, one phrase pertaining to retired members who return to SDRS-covered employment is subject to misinterpretation.

## Retirees Returning to SDRS-Covered Employment

### Current Provisions

2004 legislation affected members who retire and then return to SDRS-covered employment — a phrase in amended SDCL 3-12-88 can be interpreted to run contrary to the remainder of last year's legislation

### Changes Effective July 1, 2005

Clarifies that only members who retired under normal or special early retirement with an unreduced benefit and then returned to SDRS-covered employment before July 1, 2004, are "grandfathered" to continue to receive the annual cost-of-living benefit improvement

### THE APPLICATION

The board's recommended legislation removes ambiguity concerning retired members returning to work.

### THE RESULT

All references in the law pertaining to retired members returning to SDRS-covered employment are consistent. There is no fiscal impact.

# Noncontributory Service

### THE ISSUE

In the 2004 legislation, purchased service was excluded from counting toward the eligibility requirements for SDRS benefits. However, noncontributory service was not specified as applicable in meeting the SDRS benefit eligibility requirements.

## Noncontributory Service

### Current Provisions

2004 legislation established that a member's contributory service counts toward vesting and disability benefit eligibility, but purchased service does not — the law is silent in regard to noncontributory service

### Changes Effective July 1, 2005

Clarifies that a member's noncontributory service counts toward vesting and disability benefit eligibility

### THE APPLICATION

Noncontributory service is included in meeting the eligibility requirements for SDRS benefits.

### THE RESULT

Ambiguity about eligibility requirements is removed. There is no fiscal impact.